MEMO

DATE: September 4, 2003

TO: Community, Human and Economic Development Committee

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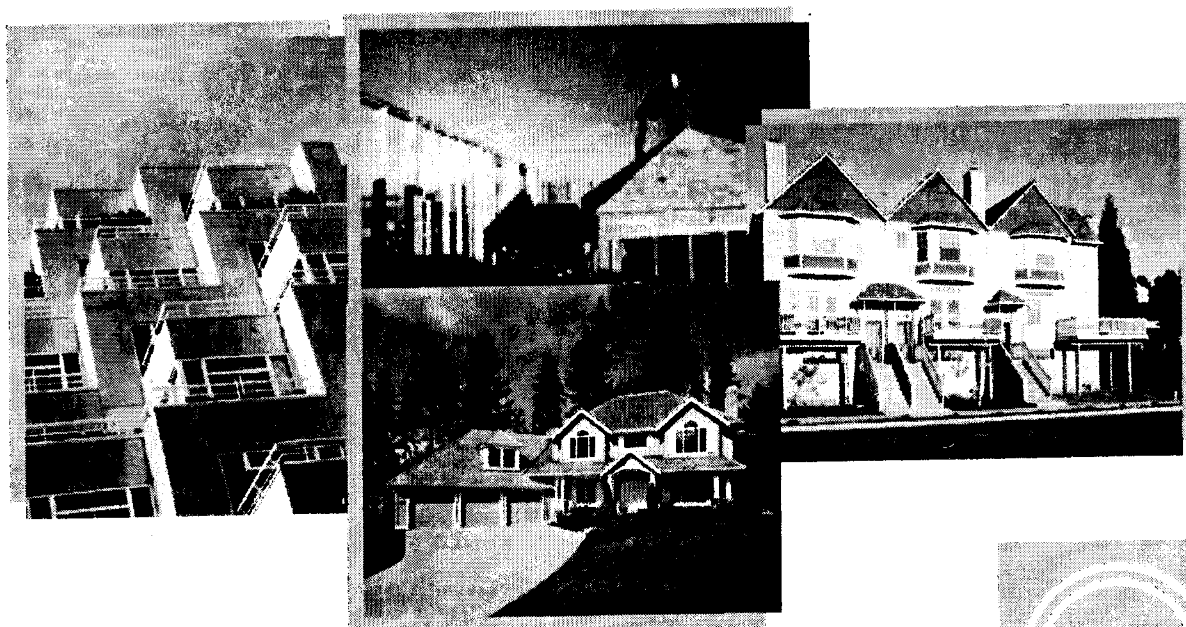
SUBJECT: Subregional Housing Implementation Strategy

The study identifies ways that Gateway Cities Council of Governments (GCCOG) role in solving the regional housing shortage. The report provides a brief overview of the housing crisis, a detailed examination of various impediments to housing production and then uses a SWOT (Strength, Weaknesses, Opportunities and Threats) analysis to better define the COG's role in housing development. The report offers a set of recommendations for future and contiued action for the GCCOG.

The Gateway Cities Council Of Governments

Sub-regional Housing Implementation Strategy



Member Cities:

Artesia
Bellflower
Commerce
Downey
La Habra Heights
Long Beach
Montebello
Pico Rivera
South Gate
County of Los Angeles
Avalon
Bell Gardens
Compton
Hawaiian Gardens
Lakewood
Lynwood
Norwalk
Santa Fe Springs
Vernon
Bell
Cerritos
Cudahy
Huntington Park
La Mirada
Maywood
Paramount
Signal Hill
Whittier

GATEWAY CITIES

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The Gateway Cities Council of Governments

Overview

> ***The GCCOG represents***
>
> - *27 member cities*
> - *Over 2 million residents*

The Gateway Cities Council of Governments (GCCOG) is a joint powers authority comprised of the twenty-seven cities located in southeast Los Angeles County. The goal of the GCCOG is to encourage voluntary cooperation among its member cities to address common issues with regional significance for a collective benefit. The GCCOG also serves as an advocate in representing member cities at the regional, state, and federal level. The subregion has a total population of approximately 2 million people and has traditionally been the industrial heartland of Los Angeles County.

Introduction to this Housing Study

The Gateway Cities Council of Governments (GCCOG) is mandated by the State of California to assist in developing housing policy, and as a result, is required to go through a series of processes to identify housing issues and needs. Today, more than ever, this represents a difficult and important task due to the current housing crisis in California. The GCCOG has met this challenge head-on by undertaking several studies examining the complex issue of housing within the subregion. The goal of these efforts is to help formulate a comprehensive strategy for creating new housing and maintaining existing housing within the subregion.

The objective of this study was to identify ways that the GCCOG, as a coalition of twenty-seven cities, can play a beneficial role in solving the regional housing shortage. Particular emphasis was placed on identifying potential financing mechanisms available to local governments that could be effectively used by the GCCOG to make new housing more feasible. This study was conducted as a "brainstorming" effort, where ideas were discussed with industry experts. This research has identified several opportunities that the GCCOG could utilize to effectively encourage housing development. These key areas are presented within this report as recommendations that will provide a starting point for the GCCOG. The member cities of the GCCOG can determine which ideas deserve further investigation.

As a part of the brainstorming process, housing industry experts were interviewed, including developers, finance experts, and residents of the subregion. The GCCOG staff also examined housing programs and grants offered by the federal government and the State of California. Considerable effort was also spent understanding the key constraints to housing that could be influenced by the GCCOG. Finally, the information was evaluated to determine the most relevant ideas and actions.

This report is structured in the following manner. First, a brief overview of the current housing crisis is given, followed by an examination of the key impediments to new housing development. This information is then complimented with a S.W.O.T. (Strength, Weaknesses, Opportunities, and Threats) analysis of the GCCOG to achieve a better understanding of the GCCOG's potential role in housing development. Finally, all information is synthesized to formulate a core set of recommendations for the GCCOG.

The Housing Crisis

California's Housing Market

California is currently experiencing a severe housing shortage. This shortage is evidenced by inflated housing prices throughout the state, especially in the San Francisco and Los Angeles/Orange County areas. For example, California's 2002 median priced owner-occupied home was estimated at $257,843. This value is over twice the national median of $123,940. This difference in median priced home values was not supported by California's incomes however. California's 2002 median household income was estimated at $55,014, while the national median was estimated at $47,532. Therefore, while California's median priced home was 108% higher than the national median priced home, California's median household income was only 16% higher than the national median. This discrepancy has lead to an environment where fewer Californian households can afford to own homes. While nationally, 66.3% of households in the U.S. own houses, only 56.9% of Californian households own homes. All figures presented here were provided by Claritas, Inc., and based upon the 2000 census.

California's Housing Crisis

- *12^{th} consecutive year of underproduction of housing units*
- *In 2000, California fell 100,000 units short of required amount*

The current housing shortage is a result of the twelfth consecutive year in which housing production was barely half of what the California Department of Finance (DoF) estimates is needed to accommodate the state's growing population. In 2000, California built fewer than 150,000 new homes, while the Department of Finance estimated the need to be upward of 250,000 per year to keep up with the demand. This point is also illustrated by examining the new jobs/housing balance. The Department of Finance estimates that a healthy jobs/home balance is one new home for every 1.5 new jobs created; currently California is building only one new home for every 3.5 new jobs created.

California's future housing needs look even more daunting. The State of California Department of Housing and Community Development (HCD) predicts that by 2020 there will be an additional 12.5 million new residents in California. With such an apparent demand for new housing, why isn't California building more housing?

Gateway Cities Subregion

The Gateway Cities subregion has remained more affordable than many other areas of Los Angeles County. Portions of the Gateway Cities region, however, have an extremely low vacancy rate and show evidence of overcrowding. The subregion's housing vacancy rate of 3.8% is almost a full percentage point lower than the Los Angeles County's vacancy rate of 4.2%. The region also has a high persons per household ratio of 3.42 (Los Angeles County has a ratio of 3.14), and over 20% of the households in the subregion consist of five or more people. The Southern California Association of Governments' (SCAG) latest growth forecast predicts that Los Angeles County will experience an increase in population of 1.5 million residents by 2020, with the Gateway Cities accounting for about 206,000 (13.7%) of this increase. With low vacancy rates and the presence of overcrowding, this increase in population will put great stress on the region's housing infrastructure.

This expected increase in population is dramatically reflected in SCAG's most recent Regional Housing Needs Assessment or RHNA numbers. RHNA numbers assigned to localities are supposed to reflect the number of units that the locality needs to build over a certain span of years to meet their housing needs. The RHNA numbers adopted in 2000 predict a need for 15,981 new housing units within the subregion over a seven and one-half year period beginning in 1998. This would require the construction of over 2000 new housing units within the subregion per year. The subregion's need for housing is quite balanced among income levels, however. The RHNA numbers predict a need for 6,562 housing units with rents/cost restricted to be affordable to very low- and low-income households and 6,633 new "market rate" housing units. Table 1 below shows the subregion's adjusted RHNA numbers by locality as adopted in 2000.

Whether RHNA numbers can be taken at face value is not the issue, however. There is no question that there is a need for both affordable and market-rate housing within the subregion. This is evidenced by the jobs/housing imbalance that already exists. Many of the workers currently employed in the Gateway Cities subregion live in the Inland Empire and commute to work due to a lack of affordable and/or quality housing opportunities. This imbalance results in more traffic congestion, longer commute times and more pollution. SCAG found in its report titled Housing in Southern California: A Decade in Review, prepared January 2001, that the vehicle miles traveled in southern California is increasing at a faster rate than the number of households. This suggests that people are making longer commutes for employment. This analysis is backed by research done by the GCCOG that indicates that families tend to move to locations outside of the subregion as they move up in income level and seek to purchase a home. Workers of the subregion, when questioned as to why they choose to live elsewhere, cited various reasons including affordability, and quality of life issues such as safety, school systems, overall "look", etc. This has caused some economists to wonder how long employers will remain in the subregion.

Leading economists from local universities have noted that the subregion cannot remain economically viable with such a large job-housing imbalance. This observation is not based on empirical evidence, but rather on a common sense view about the subregion. As a higher percentage of the subregion's workers locate outside of the Gateway Cities, the subregion's ability to attract new employers and high-paying jobs will decrease. This is a critical issue for the subregion, which has tried to redefine itself since the decline of the aerospace industry in the early 1990's. In general, these high-paying, skilled jobs have been replaced with lower level industrial and manufacturing jobs. This problem has been a focus of the GCCOG in its "Growth Visioning for Sustaining a Livable Region" studies. These studies have identified five strategies for sustaining the subregion, including: (1) transit-oriented development relieving transportation pressures; (2) manufacturing-based sustainable economic development as the subregion's bread-and-butter economic engine; (3) education of the subregion's population to increase the skills of its current residents; (4) employee training and programs offered by GCCOG/local cities to help encourage new employers to locate or expand in the subregion; and (5) brownfield redevelopment as a source of available land for economic development and new housing.

Table 1

Final 2005 Regional Housing Needs Allocations

Gateway Cities

	Very low	Low	Moderate	Above Moderate	Total
Artesia	34	29	32	50	145
Avalon	8	6	5	10	29
Bell	159	101	118	204	582
Bellflower	178	132	157	219	686
Bell Gardens	125	79	83	139	426
Cerritos	54	41	71	174	340
Commerce	30	18	22	39	109
Compton	190	109	127	228	654
Cudahy	60	36	37	64	197
Downey	102	86	114	180	482
Hawaiian Gardens	53	35	41	70	199
Huntington Park	159	95	104	183	541
La Habra Heights	30	21	34	118	203
Lakewood	150	131	207	378	866
La Mirada	60	57	86	168	371
Long Beach	411	251	296	506	1464
Lynwood	277	175	191	335	978
Maywood	67	45	46	80	238
Montebello	163	107	118	175	563
Norwalk	100	83	109	153	445
Paramount	38	25	30	52	145
Pico Rivera	122	93	126	212	553
Santa Fe Springs	26	18	20	29	93
Signal Hill	55	45	56	105	261
South Gate	206	136	155	266	763
Vernon	0	0	0	0	0
Whittier	66	54	70	119	309
Unincorporated	725	716	803	2095	4339
Totals	3648	2724	3258	6351	15981

Source: SCAG- Final adopted numbers as of 11/2000

THE VALUE OF CREATING NEW HOUSING

- **A greater diversity of housing products, representing design and housing trends in effect at the time of construction, are of benefit to any aging area.**

  A well-rounded housing market appeals to the greatest breadth of buyer profiles in terms of income, family size and lifestyles. The GCCOG, in particular, has conducted surveys that have indicated residents and family members of long-term residents often leave the region in search of a particular type of housing product that is not available in the region. This limits the demographic and educational profile of the residential base and can lead to the "aging" of an area.

- **Housing Values tend to increase with new construction.**

  Interviews with in-fill developers indicate that new homes are priced at approximately 15% higher than comparably sized existing housing stock because of the demand for new housing, and the reduced maintenance offered by new construction. These increased values tend to increase the value of the existing housing stock, which provides an incentive for owners to rehabilitate and to maintain the existing housing stock. Increasing values are therefore one of the best incentives for maintaining an aging housing stock.

- **New housing is the principle method for causing an area-wide rejuvenation.**

  Throughout southern California, many of the strongest commercial markets have evolved or have been enhanced because of new housing product first entering the market. New housing increases population and purchasing power, while eliminating dilapidation. Prime examples are downtown Long Beach, representing a downtown urban area that is benefiting from new high-density housing; downtown Brea, that first relied on numerous housing projects before commercial development arrived;

and even the growth cycle in large municipal areas over the last several decades, such as development activities that have occurred in Cerritos, where commercial development followed or accompanied residential growth. Cities often have first undertaken residential development as the primary tool to restore areas suffering from age and deterioration.

- **New housing construction boosts employment and the economy.**

  Builder's Associations throughout the nation have often noted the influence of housing development on the economy. One Midwest association cited national statistics showing that 1,000 single family homes generates 2,448 jobs in construction and construction related industries, with over $75 million in wages and $37 million in federal, state and local taxes. The southern California economy is directly related to, and reliant on, the construction industry.

- **Housing availability contributes to a healthy economy.**

  Housing availability and a healthy economy are directly linked. The Bay Area, which has experienced an even tighter housing market than southern California, has found that a lack of affordable housing has decreased the area's competitiveness with employers, as well as being related to other problems such as transportation. Dr. R. Sean Randolph, president of the Bay Area Economic Forum, notes: "The issue of availability and affordability of housing doesn't exist in a vacuum, but has a very direct impact on our economy and its competitiveness. The need for long commutes to find affordable housing is a major factor behind the increasing congestion..." Additionally, a variety of housing types is an important factor in attracting businesses to a community. Studies have indicated that one of the most important considerations for businesses making location decisions is the availability of suitable housing product for high-ranking executives in close proximity to the new site. A recent study by Robert Half International, the world's largest staffing service specializing in accounting, finance and information technology fields, indicated that quality of life in the new city was the single greatest factor affecting an executive's decision to relocate. Fortune Magazine also acknowledges this factor in their 1996

Best Cities for Business rankings. Co-author Anne Faircloth, says "'Emphasizing quality of life issues was a conscious decision on our part. Opportunities for having a well-rounded lifestyle come up increasingly in our talks with CEO's and recruiters. They recognize that people have lives outside the workplace.'" Important quality of life factors included education, housing, recreation, and safety.

- **New housing will moderate the increase in rental rates and home values.**

  The RHNA numbers assigned to the GCCOG are a strong indicator of the State's increased population seeking to locate within the GCCOG subregion. Very low vacancy rates and a limited supply of new ownership and rental units cause an increase in housing values due to the imbalances of supply and demand. Increased housing product will moderate rapid increases in value. In contrast, areas that have restricted growth artificially, such as Santa Barbara, have caused housing values to rise at a disproportionately high rate.

IMPEDIMENTS TO NEW HOUSING

Despite the growing demand for new housing, California continues to under produce new housing units. To better understand the dynamics of housing production, the GCCOG interviewed housing developers and experts, local residents, and consulted various information sources. From this research, the main limitations to new housing construction have been identified. Roughly, these impediments can be broken down into statewide impediments and local or regional impediments. Statewide impediments include excessive litigation, environmental objections, a tax structure that does not encourage housing, and conflicting state legislative policies. Local impediments include NIMBYism, lack of available land, and project processing roadblocks.

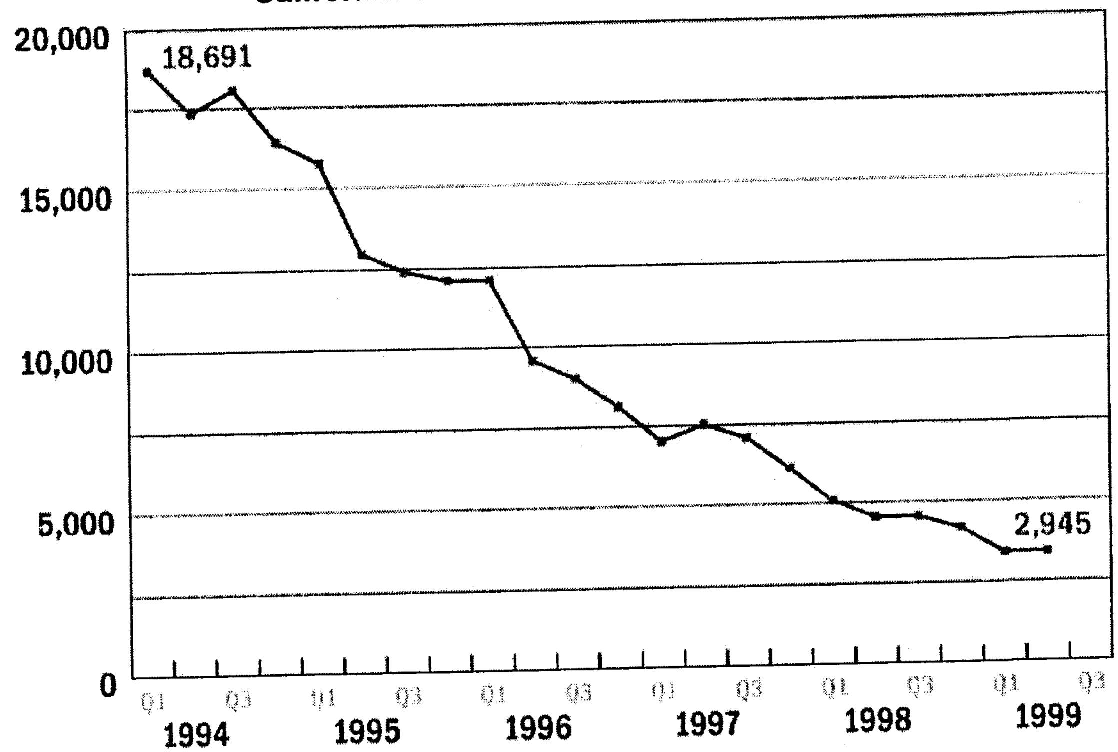
Statewide Impediments

> ***Statewide Housing Impediments***
> - Excessive Litigation
> - Environmental Objections
> - Legislation and Conflicting Policies
> - State Tax Structure

Currently, several impediments to new housing exist on a statewide basis. Many of these impediments center around adopted policies or legislation. It is no surprise to housing experts that these impediments exist. As a result, several housing advocate organizations have been created to help address these issues, such as the Job-Center Housing Coalition. In fact, the *Western City* magazine's April 2002 issue presented an overview of the housing and growth pressures in California. In this issue, they identified the following statewide issues effecting housing: excessive litigation, environmental extremism, faulty legislation and conflicting policies, and a misguided state tax structure.

- **Excessive Litigation-** Over 18,000 condominiums were built in 1994 in California alone. By 1999, however, condominium production had fallen to just 2,900 per year. This is very surprising considering the growing deficit in affordable housing. This decrease in production centers around an avalanche of lawsuits against builders of condo complexes built in the 1980's and 1990's. As a result, builder's liability insurance on multifamily attached housing has increased dramatically, making this type of housing product more difficult to develop. For example, one developer interviewed noted that his cost/square foot for single-family detached homes was $50/s.f. On the other hand, attached town-homes cost him just under $60.00/s.f. He attributed the higher cost to insurance premiums on attached housing. This is very unfortunate because condominium complexes and town homes are generally more affordable and allow higher density housing. The following graph depicts the decline in production of condominiums in California experienced in the 1990's.

Figure 1
California Condominium Production, 1994-1999



Source: The Meyers Group

This excessive litigation is a recognized problem and there have been several recent attempts to relieve this burden through legislative means. Most notably, Senate Bill 800, which came into effect as of January 2003, establishes a mandatory procedure that homeowners must follow prior to filing a construction defect lawsuit. This procedure gives the builder the right to attempt a repair of the defect prior to litigation. The statute also protects builders against damages caused by unreasonable failure to minimize damages on the part of the homeowner, failure of the homeowner to follow maintenance obligations, and of defects caused by alterations, misuse, and abuse. Though it is too early to determine whether this law will sufficiently correct the situation, it is reasonable to believe that it will have positive effects. Hopefully, due to this law and others, attached housing should become a successful product once again.

- **Environmental Objections-** Most proposals for development are required to adhere to the California Environmental Quality Act's (CEQA) provisions. While the CEQA plays a vital role in protecting our environment and communities, recently it has become a tool used to challenge local housing development. Though recent changes to the law have addressed this issue, legislators need to continue to refocus this act so that it is not an easy tool to unnecessarily block housing development.

- **Legislation and Conflicting Policies-** The State of California is sending mixed signals on housing development through a series of conflicting policies. For example, the Department of Finance has determined that there is a need in California for 220,000 new housing units per year through 2020. In turn, the Department of Housing and Community Development has provided Regional Housing Needs Allocation (RHNA) numbers to local council of governments based on this prediction. This policy does not consider, however, how these numbers can be reconciled with other provisions such as those of CEQA. At the same time, State legislators have recently enacted bills such as SB 975 requiring, under certain circumstances, government-subsidized development to pay prevailing wages, which dramatically reduces the economic viability of new housing development. The policy issue is this: while one State department is requiring new housing, other departments/legislators are making housing development less economically feasible.

Many of the State's housing programs have proved problematic as well. Both federal and State housing programs tend to be too restrictive to effectively meet local goals or constraints. Often low-interest housing loans have such restrictive requirements that only a very narrow slice of the population actually qualifies, and those that do qualify often don't need the loan. Other "incentives," such as low-income tax credits, have severe limitations. Housing experts and developers agree that low-income tax credits provide the most powerful tool for the development of affordable housing. Yet, due to the limited allocation of tax credits, developers do not know if they will receive tax credits until after the site has been contracted, the project entitlements secured, and financing has been identified. A better approach would be to grant tax credits to all projects that met established minimum requirements. In effect, a developer would know if his project would receive a credit prior to having to secure the site.

- **State Tax Structure-** The State tax structure for local government is currently oriented toward non-residential uses. Consequently, moderately-priced new housing can have a negative impact on local governments since there is little direct fiscal benefit from new housing. This is because new housing often requires the upgrading and expanding of infrastructure, such as streets, sidewalks, sewers, water lines, and, even more importantly, local services such as police, fire, parks, and transportation. Investigations by the California Research Bureau, a part of the State of California Library, indicate that multifamily housing units produce an annual city loss ranging from ($202) to ($566) per unit. Much of this can be traced back to Proposition 13 and changes in the early 1990's which shifted property tax dollars to fund school districts. This forces cities to pursue big box retailers and car dealerships, while avoiding new housing.

Local Housing Impediments

Local Housing Impediments

- NIMBYism
- Lack of Available Land
- Project Processing Roadblocks

After having interviewed developers and housing specialists within the area, it is clear that several roadblocks to new housing exist within the Gateway Cities subregion. These impediments include NIMBYism, a shortage of available land, and processing roadblocks. Here these impediments are quickly summarized.

- **NIMBYism-** NIMBYism, or "Not In My Backyard," is a common expression for an attitude that occurs throughout the State of California, not just within the Gateway Cities. Residents of California enjoy, from their own perspective, a high quality of life and there is a perceived threat that more housing and people will deteriorate it. In the year 2000 alone, 671 local land use measures were put on ballots in California and 60% of California voted for limited growth.

  NIMBYism is certainly present among the residents of the Gateway Cities subregion, as was apparent in the resident focus group held on May 11, 2002 by the Gateway Cities Council of Governments. Housing experts generally attribute NIMBYism to misinformation and a lack of education regarding product types and impacts. Often area residents have the perception that new housing will bring "outsiders" into their community. Studies have shown, however, that this is not true. The Olson Company, one of the leading housing developers in California has conducted extensive research on many of their projects. They have found that over 80% of buyers purchasing their housing originate within a five-mile radius of the project.

- **Lack of Available Land-** The Gateway Cities subregion is essentially built-out, with limited opportunities for new housing development. New housing development must therefore be infill by nature and generally occurs on brownfield sites or through the redevelopment of commercial or deteriorated residential property. This presents local cities with a real problem when State-mandated RHNA numbers must be met, especially with regard to the strain these units will put on the local infrastructure. This might be the key impediment to housing within the subregion.

When meeting with a marketing director of the Olson Company, a leading housing development corporation in Southern California, he stated that finding an available site is the biggest challenge they [Olson Company] face. Once a site is established and assembled, they generally can deliver a product that will fit the area and be successful. This, of course, is subject to the land being "reasonably priced." This opinion was generally shared by others who participated in the developer focus group also held on May 11, 2002 by the Gateway Cities COG. Many developers voiced dismay that they were often the last to be approached when cities tried to develop a potential residential site.

- **Entitlement Roadblocks-** All of the developers interviewed, without exception, mentioned project-processing roadblocks as a major obstacle to developing new housing units. These roadblocks come in various forms: an extended entitlement process, excessive plan checks, excessive fees and permit costs, or even simply difficulty contacting local officials. One developer noted that several cities within the subregion rely on the County for entitlement processing, which can take up to 24 months to complete, during which time they must have the land under contract. This developer noted that the same process in more development-friendly cities generally takes only six months. Many cities currently have excessive fees that can also make housing unfeasible. This is especially true for small infill projects. For these smaller projects, in which the infrastructure is already in place and arguably sufficient, these fees can be very high. One developer also mentioned that with some cities within the region it's difficult to even contact city officials. It is clear that if new housing is going to be developed within the subregion, then the member cities themselves need to reconsider their current housing policies.

A Developer's Perspective

The primary purpose of this study was to determine how the GCCOG could reduce the cost of, or influence the economics of, new housing. To better understand factors that influence housing development, the GCCOG staff interviewed one of the leading housing development companies in California, The Olson Company. The Olson Company provided much information and the interview proved very enlightening. Here the interview is paraphrased:

Could you outline your basic approach to new projects?
Most cities assume that we have a project in mind and we locate sites that fit the product. However, generally we first identify a site. Once a site is identified and under contract, we put together a product mix that fits the site and its surroundings. Next, we begin preliminary engineering and the entitlement process. Around this time we also meet with the City and neighborhood residents, and begin to secure financing.

What is the hardest part of a project?
The hardest part of a potential project is to identify and assemble a site at a reasonable cost. This can be a really tricky process. We generally require a site of at least one acre, so most often it requires some assemblage process which can be very difficult, especially when asking property owners to wait for a year or two while we complete the entitlement process. This is an interesting subject. Communities that are pro-development often have expedited the process greatly. For example, Los Angeles County requires a full 24 months for this process (18 months for preliminary title maps and 6 months for a grading permit). In the City of Los Angeles, this process generally takes 18 months, while in cities that are pro-development the entire process may take only six months.

We generally have target areas that the company is trying to get into where we haven't worked before. But if a city comes to us with a ready site, we will almost never turn them down. This is not that common, however. Usually, [housing developers] are the last ones to be offered a site by both cities and realtors.

What other factors inhibit projects?
From our perspective, there are a number of other inhibitors in the housing market. The entitlement process mentioned above is a big one, along with other "hoop-jumping" that some cities make us do. It really is amazing the difference between a city that wants a project versus a city that is indifferent or just altogether doesn't want it. Often there is a

lack of understanding by both residents and cities regarding the product types that we offer. When they actually see some of our projects, they are usually very impressed. The price of land can also be a significant inhibitor to a successful development.

Another current problem is SB 975. This really hurts a city's ability to influence housing development. It is generally thought that prevailing wages will increase costs by about 15%. However, in one project we did consisting of single-family homes, cost estimates increased by a full 40%.

Do higher densities make a project more effective?
Not necessarily. Our most successful product, by far, is single-family homes. This is due to two reasons. One, they often sell for a premium in southern California. And two, they cost much less to build. Generally, our town homes and loft projects cost just under $60/s.f., while single family homes cost around $50/s.f. The difference is mainly due to insurance reasons. For a while, I think due to our size, we were one of the few companies that could even get their attached housing projects insured.

In the Gateway Cities, for example, are there any areas where you would not work?
No. We have done projects in all types of communities with great success. If any city showed interest, we would do our best to work with them.

GATEWAY CITIES S.W.O.T. ANALYSIS

To understand the COG's potential role in creating new housing, a S.W.O.T. (strengths, weaknesses, opportunities and threats) analysis was prepared. By examining the strengths and weakness of the subregion, the types of actions best suited to the COG can be better understood. By examining opportunities and threats, the best-suited actions that meet the current conditions can be chosen.

Strengths

The main strength of the Gateway Cities Council of Governments is the number of cities involved and the large number of residents. GCCOG includes 27 cities and about 2 million people. This gives the GCCOG several key resources. The subregion, on the whole, possesses great financial strength. Many of the cities already have financing mechanisms such as redevelopment and block grant programs in place. The size of the subregion also gives the GCCOG political influence that could be very beneficial in establishing new policies and legislation. Finally, programs administered on a subregional basis may achieve an economy of scale.

The GCCOG has many other strengths as well. The subregion is located in proximity to several major employment centers and world-class colleges and universities. The GCCOG represents a pre-established coalition within the area. The subregion already has existing infrastructure, including sewer systems, roadways and transportation systems, parks, schools, and utilities.

Another strength of the subregion is the diversity of its residents. Ethnically diversified, Gateway Cities' residents come from all walks of life and are of all ages. This permits a range of residential product types and densities.

Weaknesses

Housing production within the subregion is limited by most of the aforementioned barriers to development. There is also a lack of staff resources available in many of the member cities due to on-going financial constraints. This shortage of personnel is critical because infill development can require more staff involvement than non-infill development.

A major weakness within the subregion, of course, is the lack of available land. The subregion is largely built-out and offers little opportunity for large-scale development. Furthermore, many of the "available sites" are available because they have pre-existing conditions that require costly remediation. Also, there is a very high land cost in comparison to outlying areas such as the Inland Empire. This makes it much more difficult for affordable housing developments to be economically feasible.

Another weakness among member cities is the absence of uniform housing policies. The individual cities that comprise the GCCOG have different entitlement processes, plan check procedures, restrictions, fees and permits. Their housing programs vary so greatly that realtors and developers may only be familiar with those from a relatively small geographic area. This disparity is further complicated by the lack of a unified marketing strategy within the subregion.

At the GCCOG-sponsored residents focus group, participants generally held favorable opinions of their individual communities, but many expressed serious concerns about issues such as public safety, traffic congestion, and environmental problems. The quality of local school systems was another very important issue with participating families.

Opportunities

The strengths and weaknesses of the GCCOG presented above immediately suggest several opportunities to increase housing development within the subregion. Most of these opportunities involve the GCCOG's key strength: its size. These opportunities include regional programs, pooling of funds, legislative opportunities, and expanded marketing.

One opportunity for the member cities of the GCCOG is to create regional housing programs. Most of the cities within the subregion already have several housing programs in existence. One drawback to these programs is that their requirements vary from city to city. If the member cities could outline one or two programs that they all can support, then it will be much more cost effective to market these programs to residents, real estate brokers and housing developers. A lack of awareness is often the primary reason such housing programs are not utilized. For example, a task force for the Mayor of the City of Riverside found in their "Mayor's Home Ownership Task Force" report (June 21, 2002) that almost every "new" housing program they could think of already existed in some form within the city. However, very few people knew of the programs and even worse, there was no one place to get information on them. The GCCOG could therefore act as an information center for housing programs available within the subregion.

As stated in the strengths analysis, many of the member cities already have financing mechanisms in place that could be used for housing development. These include redevelopment and block grant programs. Not every city, however, has the land resources to create new housing. There exists the opportunity to pool available funds in the interest of creating more housing. How pooled funds would be used presents considerable opportunities. Funds could be used directly, or as an insurance pool for a bond issue. Clearly, this "pooling" idea could present a powerful benefit to the subregion. The primary obstacle to combining these revenues is that current law restricts the use of funds from the above-mentioned financing mechanisms to defined areas or specific jurisdictions.

Though the restrictions on these financing mechanisms currently do not allow pooling among jurisdictions, the GCCOG may have the opportunity to change this. Due to the number of cities and residents in the subregion, the GCCOG has the ability to propose and support legislation to allow for such an activity. The GCCOG could also propose legislation addressing other housing restrictions, such as modifying requirements for prevailing wages.

Another opportunity for the GCCOG member cities is the use of area-wide marketing. If subregional housing programs could be developed, the GCCOG could advertise these programs on a larger scale, and perhaps have a subregional website dedicated to housing. Second, marketing and education programs could be developed to create a better image of the subregion and attract more employers and housing developers. Efforts could focus on a three pronged approach, marketing to (1) homebuyers; (2) service industry representatives, including banks and realtors; and (3) developers and investors.

The GCCOG is in the unique position of representing a region of cities. Because of this, there exists the opportunity for the GCCOG to undertake innovative housing programs. This is similar to what is already happening with the Gateway Cities Partnership and brownfields redevelopment. The Gateway Cities Partnership was founded in 1997 as an alliance of business, labor, education and the public sector. One of the goals of the partnership is to promote the reuse of industrial land to revitalize the region's urban core. The Gateway Cities COG received a $250,000 grant from the Environmental Protection Agency (EPA) to identify brownfield sites with the greatest potential for reuse. This very successful program, which was implemented through the Gateway Cities Partnership, should serve as a model for other types of regional programs such as potential affordable housing programs.

Finally, despite an evident need for more residential units, circumstances currently force cities within the Gateway Cities subregion to assume different approaches vis-à-vis new housing development. If the GCCOG could discover ways to encourage housing within its member cities, then perhaps more opportunities would present themselves. One key problem within the subregion, for example, is that in some cases city policies do not actively favor housing development. By developing subregional housing strategies, the GCCOG could help create housing policies favoring infill development and perhaps focus on areas with a high level of interest. Additional clarity in subregional housing policies could also result in greater interest from developers and investors.

Threats

There are several threats to the Gateway Cities subregion that need to be addressed by the GCCOG. They include a declining education level, a job-housing imbalance, the deterioration of existing housing, decreasing affordability, an aging infrastructure, and overcrowding.

Currently, there exists a job-housing imbalance within the subregion, meaning that there are more than 1.5 jobs for every housing unit. Essentially, housing production has not kept up with the increase in jobs. This forces many of those working in the Gateway Cities to live elsewhere. There is a definite threat that eventually higher paying jobs might follow the workers to localities outside the subregion.

Even though the State and SCAG are focusing on new housing, a key issue facing the Gateway Cities is the maintenance of current housing. A large portion of the current housing stock within the Gateway Cities subregion is aging and will require additional maintenance to remain viable. Housing across the subregion generally ranges in age from 30 to 60 years, and unless current homes are properly maintained, they will soon become obsolete and blighted. Similarly, the subregion's infrastructure is also aging and without proper maintenance it will rapidly deteriorate.

The California Department of Finance has predicted that there will be 12.5 million additional people living in California by 2020. It is therefore reasonable to assume that the Gateway Cities will absorb a portion of that number. This potential growth provides a significant threat of overcrowding, and without new housing the quality of life within the subregion may suffer immensely.

Finally, as in the rest of California, much of the subregion's housing has become unaffordable to households of median income. As the population grows, it is likely that affordability will decrease even more, resulting in an even lower rate of home ownership. A decrease in housing affordability is therefore constitutes a major threat to subregion.

GCCOG S.W.O.T Analysis

Strengths

- Financial resources
- Political Influence
- Economies of Scale
- Proximity of employment
- Universities and colleges
- Infrastructure
- Diversity

Weaknesses

- Limited financial and staff resources among member cities
- Lack of available land
- Lack of uniform housing policies
- Quality of life issues

Opportunities

- Regional housing programs
- Pooling of resources
- Proposal of new Legislation
- Wide-scale marketing
- Pilot programs
- Master housing policies

Threats

- Declining education level
- Job-housing imbalance
- Deterioration of current housing
- Decreasing affordability
- Aging infrastructure
- Overcrowding

FINANCIAL RESOURCES

One of the major objectives of this study was to identify potential financial resources that could be used by the GCCOG to influence housing production. To begin this research, the GCCOG met with municipal financial advisors and bond counsels to discuss financing mechanisms and bond opportunities. These meetings were held in a very informal, brainstorming manner, discussing several ideas back and forth. Unfortunately, those interviewed did not think that there were any new or unused bond programs that would be a significant improvement over those widely used by the industry. Some ideas discussed and researched are briefly discussed here:

- **Fees and Fee Waivers-** Many cities levy development fees and exactions on new commercial and/or residential development to generate funding for infrastructure development and improvements. Sometimes fees are charged to generate funds for affordable housing. Some jurisdictions provide "fee waivers" that reduce or eliminate local development fees for affordable housing developments.

- **Housing Trust Funds-** Housing trusts are a flexible way for governments to dedicate funds for a variety of critical housing needs. Sources of revenue for housing trust funds include grant funds, real estate transfer tax, linkage fees, interest on investments, transit occupancy tax, etc. A GCCOG housing trust fund could be the ideal way to establish a subregion-wide commitment to housing and create programs that provide predevelopment funds.

- **Local Taxes and Revenues-** A community can enact new taxes dedicated to affordable housing with a two-thirds vote of the public. Potential taxes that could be used for affordable housing include property taxes, transfer taxes, parcel taxes, hotel taxes, or business taxes. These are unlikely in today's market with state and local governments looking for new funding. It should be noted, however, that in November 2002 voters statewide voted to pass Proposition 46, creating a $3.1 billion dollar housing bond. This shows that the public is willing to address housing needs.

- **Municipal Bonds-** A number of cities have used municipal bond financing for affordable housing. The most common types of bonds include Mortgage Revenue Bonds, Mello-Roos Bonds and Tax-Exempt Revenue Bonds. The allowable uses of funds generated by a bond issue is subject to the type of bond. Financial advisors interviewed felt that with current interest rates as low as they are, bond schemes would not be very effective in the current market.

- **Redevelopment Financing-** Tax increment funds generated from a redevelopment project area may be used for public improvements in the district, and for affordable housing development anywhere in the locality. Redevelopment also enables the local agency to issue tax allocation bonds and loans to generate revenues for implementing plans. Redevelopment can provide a significant amount of locally controlled funds for housing development.

Most cities have a table of public and private resources for affordable housing within their housing element. The following is a representative table and was assembled from housing elements from several southern California cities. It is provided here for reference.

TABLE 2
PUBLIC AND PRIVATE RESOURCES
AVAILABLE FOR HOUSING PROGRAMS

Program Name	Description	Eligible Activities
Federal Programs – Formula/Entitlement		
HOME	Flexible grant program awarded to the city on a formula basis for housing activities	• New construction • Acquisition • Rehabilitation • Home Buyer Assistance • Rental Assistance
Community Development Block Grant	Grants awarded to the City on a formula basis for housing and community development activities.	• Acquisition • Rehabilitation • Home Buyer Assistance • Economic Development • Homeless Assistance • Public Services
Federal Programs - Competitive		
Supportive Housing Grant (SuperNOFA)	Grants to improve quality of existing shelters and transitional housing; increase shelters and transitional housing facilities for the homeless.	• Homeless Assistance (Acquisition, New Construction, Rehabilitation, Conversion, Support Services)
Section 8 Rental Assistance Program	Rental assistance payments to owners of private market rate units on behalf of very low income tenants (administered by the County).	• Rental Assistance
Section 202	Grants to non-profit developers of supportive housing for the elderly	• Acquisition • Rehabilitation • New Construction • Rental Assistance • Support Services
Section 811	Grants to non-profit developers of supportive housing for persons with disabilities, including group homes, independent living facilities and intermediate care facilities	• Acquisition • Rehabilitation • New Construction • Rental Assistance
Section 108 Loan	Provides loan guarantee to CDBG entitlement jurisdictions for pursuing large capital improvement or other projects. The jurisdiction must pledge its future CDBG allocations for repayment of the loan. Maximum loan amount can be up to five time the entitlement jurisdiction's most recently approved allocation. Maximum loan term is 20 years.	• Acquisition • Rehabilitation Home Buyer Assistance • Economic Development • Homeless Assistance • Public Services

State Programs		
Emergency Shelter Program	Grants awarded to non-profit organizations for shelter support services.	• Support Services
Mobile Home Park Conversion Program (M prop).	Funds awarded to mobilehome park tenant organizations to convert mobilehome parks to resident ownership.	• Acquisition • Rehabilitation
California Housing Finance Agency (CHFA) Multiple Rental Housing Programs	Below market rate financing offered to builders and developers of multiple-family and elderly rental housing. Tax exempt bonds provide below-market mortgage money.	• New Construction • Rehabilitation • Acquisition of Properties from 20 to 150 units
Mortgage Credit Certificate Program	Income tax credits available to first-time homebuyers for the purchase of new or existing single-family housing. Local agencies (County) make certificates available.	• Home Buyer Assistance
Low Income Housing Tax Credit (LIHTC)	Tax credits available to individuals and corporations that invest in low income rental housing. Tax credits sold to corporations and people with high tax liability, and proceeds are used to create housing.	• New Construction Rehabilitation • Acquisitions
California Housing Rehabilitation Program – Owner Component (CHRP-O)	Low interest loans for the rehabilitation of substandard homes owned and occupied by lower-income households. City and non-profits sponsor housing rehabilitation projects.	• Rehabilitation • Repair of Code Violations, Accessibility Improvements, Room Additions, General Property Improvements.
Private Resources/Financing Programs		
Federal national Mortgage Association (Fannie Mae)	Loan applicants apply to participating lenders for the following programs:	
1. Community Home Buyers Program	Fixed rate mortgages issued by private mortgage insurers.	• Home Buyer Assistance
2. Community Home Mortgage Improvement	Mortgages which fund the purchase and rehabilitation of a home.	• Home Buyer Assistance • Rehabilitation
3. Fannie Neighbors	Low Down-Payment Mortgages for Single-Family Homes in underserved low-income and minority communities.	• Home Buyer Assistance
Savings Association Mortgage Company Inc. (SAMCO)	Pooling process to fund loans for affordable ownership and rental housing projects. Non-profit and for profit developers contact member institutions	• New Construction of single family and multiple family rentals, cooperatives, self help housing, homeless shelters, and group homes for the disabled.

California Community Reinvestment Corporation (CCRC)	Non-profit mortgage banking consortium designed to provide long term debt financing for affordable multi-family rental housing. Non-profit and for profit developers contact member banks.	• New Construction • Rehabilitation • Acquisition
Federal Home Loan Bank Affordable Housing Program	Direct Subsidies to non-profit and for-profit developments and public agencies for affordable low income ownership and rental projects	• New Construction

RECOMMENDATIONS

Research for this housing study has branched in many directions, including examining current restrictions on housing and brainstorming with financial experts. This diverse approach to examining the housing crisis has highlighted several areas in which the GCCOG could facilitate housing production. These areas were compared with the subregion's S.W.O.T. analysis to determine which ones are likely to be most effective.

1. Creation of a Housing Trust Fund

The GCCOG should create a housing trust fund that would be used to facilitate housing development. Housing trust funds provide a flexible structure for local governments to dedicate sources of revenue to housing development. The major advantage to housing trust funds is that the locality is able to create its own regulations to address its own needs. This gives the creating agency more flexibility than is found in housing programs offered on the federal and State level. Some housing trust funds even dedicate a limited percentage of revenues to predevelopment activities, including environmental testing, the creation of specific plans and design guidelines, and even site assemblage.

This is a relatively new tool and a GCCOG housing trust fund would likely serve as a model for many other subregions to follow. In many ways, the Gateway Cities represent the ideal size area for a trust fund. Smaller regions might find it hard to identify revenue sources that are large enough to be effective. The Gateway Cities, however, represent a large enough area that even small fees could produce a large amount of revenue.

Creating a housing trust fund, however, would require substantial work on the part of the GCCOG. Forming a housing trust fund is a political process that requires persuading elected officials to assume heavy responsibilities. Naturally, this would require key members to champion the idea of a trust fund. Some key components of successful trust funds are that: (1) multiple sources of funding are dedicated to the trust fund so that the fund does not disappear if one source is eliminated; (2) generally revenue sources should not already be dedicated to housing such as HOME funds; and (3) the housing trust fund's regulations leave a certain amount of flexibility in how funds are to be used. Other issues include who will administer the fund and how will administration costs be covered. Several potential revenues sources are listed below:

Pooled Redevelopment Monies and Block Grant Funds- The GCCOG could sponsor legislation to allow the pooling of redevelopment monies and block grant funds on a subregional basis to allow funds to be expended in areas of greatest opportunity. This would also help prevent overspending on single projects to meet State mandates. Furthermore, since most of the member cities already have these financing mechanisms in place, the pooling of even a small percentage of funds could result in a large amount of revenue.

Adopt a region-wide linkage fee for commercial development- New commercial space attracts new businesses and promotes the expansion of existing businesses. Many of these new jobs, however, are low-wage service jobs that do not support housing prices within the subregion. Linkage fees are allowed under State law and do not require a vote if the local government can demonstrate the link between commercial development and the need for more housing or affordable housing. A linkage fee of $1-$2 per square foot of commercial development would generate significant revenue for the housing trust fund.

Transient occupancy tax- The GCCOG could lobby member cities to increase their transient occupancy tax (TOT) by a small fraction. This increase in tax, however, would require approval of two-thirds of the electorate if the increase were dedicated to a trust fund. Cities could also, in lieu of increasing the tax, dedicate a similar fraction of their current tax to the fund.

Interest on accounts- Member cities could designate the interest earned on certain government-held and market-based accounts, such as rainy day funds, real estate escrow accounts or tenant security deposits.

Corporate and Foundation Contributions- Some housing trust funds receive funding from major corporations or foundations located within the jurisdiction. This is most notably true of the Santa Clara Housing Trust Fund that received most of its initial funding from major companies located in the Silicon Valley, including Hewlett Packard and Intel. A similar investment by local corporations and funds might be a primary source for the GCCOG.

In the current municipal environment, many of these typical sources might seem inaccessible. There are many other potential revenue sources for housing trust funds; however, and choosing sources that best fit the community takes both research and trial and error. These sources should be identified by the housing trust fund committee that would be responsible for establishing the trust fund.

2. Non-profit Housing Development Corporation

The GCCOG has the opportunity to meet the housing crisis head-on by forming its own non-profit housing development corporation. The GCCOG could develop and own without profit certain types of housing projects that are difficult to secure in the for-profit market place. Some cities within the subregion already operate their own housing corporation. The GCCOG could help benefit cities that are not as proactive or do not have the resources to manage such an operation. Some of the benefits of such a venture are described below.

Pilot and Grant Programs- A GCCOG housing development corporation (GCHDC) would offer many of the same benefits provided by the Gateway Cities Partnership. In this manner, a GCHDC could represent a structure to receive federal and State grants, or to administer pilot housing programs within the subregion. Such pilot programs, for example, might include programs to convert excess commercial development into new affordable housing. Grants could be secured to conduct feasibility analyses in target areas within the subregion.

Secure Tax Credits and other Housing Funds- A non-profit housing corporation would be eligible for low-income tax credits and other housing programs offered on both the federal and State level. One of the ideas discussed with financial advisors involved combining projects around the subregion. If the GCHDC could identify similar sites around the subregion, they could develop those sites as one project. This might allow smaller projects to qualify for some of these competitive allocations. For example, a small ten unit affordable housing project would not likely qualify for many competitive programs. However, if ten similar projects could be combined, then the total project would be 100 units.

3. Create a Proactive Infill Environment

Since the Gateway Cities subregion is nearly built-out, much of the new housing opportunity sites are essentially infill. However, a look at local impediments to housing development, and interviews with actual developers, clearly show that local governments themselves often hinder infill development. Given the existing tax structure in California, too often cities are less interested in new housing development than in commercial/retail uses. One of the primary GCCOG objectives should therefore be to create an environment that encourages infill housing development. The GCCOG has actively conducted research on infill housing development under its Growth Visioning studies. These studies identified the need to streamline the permitting process for smaller projects, elicit community input, and offer financial incentives, but left the implementation process to the cities. The reality is that many cities do not have the staff or resources to develop new policies or programs. The GCCOG should take a proactive role in assisting cities by creating regional infill development standards. The Urban Land Institute published a book on inner-city infill development in 1997 that suggests several measures and strategies to accomplish this. Many of these measures fit nicely with the GCCOG strengths and could help reduce the cost of infill housing greatly.

Proactive infill development framework- The GCCOG should actively work toward creating an infill development strategy to be implemented by all cities within the subregion. One of the primary hindrances to infill development is a NIMBYist attitude by communities. The GCCOG should therefore sponsor community workshops and strategize with community groups, economic development departments, social services agencies, law enforcement agencies, and transportation planners.

Review current regulatory framework- The GCCOG could create model standards that provide for infill development. This would help reduce the cost to each individual city of developing standards for themselves. Ideally, every city could agree to similar standards. Adopted standards should allow for irregular and small lot development, allow mixed-use development at densities high enough to make development feasible, and provide incentives with density bonuses for low-income housing. The GCCOG could also develop model specific plans and design guidelines.

Fast-track infill development approvals and permits- Member cities could offer a streamlined review process for infill projects located on targeted sites. If proposed projects meet design guidelines developed by GCCOG, then permits would be issued. Reduce the requirements for permits for smaller projects and allow for self-certification with random spot checks. Allow for a certain amount of variance in design standards to promote efficiency.

Information sharing- The GCCOG should compile a database of sites available for infill development. The GCCOG should establish a website that provides developers with current inventory of vacant and underutilized properties as well as information on design guidelines, regulatory frameworks, financial assistance programs available and contact information. The website would act as a one-stop information source for developers interested in working in the subregion.

Prepare Master EIRs- The GCCOG could complete comprehensive EIRs which consider mixed-used development. The costs of these EIRs could be recouped through development fees.

Assist infill developers with land acquisition and assembly- The GCCOG should strongly recommend that member cities assist developers in land acquisition and the assembly of target sites. The assemblage of potential sites is one of the main inhibitors of new infill development.

Increase community acceptance of infill- The GCCOG could put together presentations and workshops for the public on the benefits of infill housing. These presentations should illustrate different types of designs and how they mitigate negative effects. The GCCOG should also voice support of potential projects and try to gather the support of environmentalists and transit advocates.

4. Alternative State Tax Structure

The State/local tax structure does not reward new housing. Due to the tax structure, new housing can actually have a negative fiscal impact on cities. Additionally, the State has threatened to withhold transportation funds allotted to jurisdictions that do not meet their RHNA housing requirements. In other words, local governments are presently in a lose-lose situation when it comes to housing. The GCCOG should propose, and help sponsor, legislation that will address this problem. Here are several ideas to positively affect the State taxing structure.

Residential Redevelopment Projects- Most redevelopment areas primarily focus on commercial and industrial areas. Recently, many cities have been considering putting large, older residential areas into redevelopment, but this can be very difficult. The GCCOG could propose new legislation that would make it easier to create such projects as long as all tax increment revenues will be used for housing development or rehabilitation or transportation-related housing projects. Additionally, it should work to modify the law so that redevelopment money from such a project could be used outside the project area. The goal is to provide cities with financial incentives that encourage housing development.

Residential Infrastructure Districts- Currently, there exists in California Law an outline for what is known as infrastructure districts. This allows cities to capture a certain amount of property tax increment from a designated area to fund infrastructure upgrades. This tool has not been very effective, however, and has only been used by a few cities. The GCCOG could sponsor legislation to create residential infrastructure districts that could be created for certain types of projects. A portion of the property tax increment from the new development could go toward infrastructure expansion and replacement. This financing could be used in lieu of development fees and could also pay for public improvements. This could greatly reduce the cost of new housing and at the same time show economic benefit to the cities.

Sponsor programs that provide incentives for cities that meet their RHNA numbers- Currently, the State is using threats to push cities into meeting their housing requirements. Alternatively, the State should reward cities that do meet their requirements. One possible way would be to offer additional block grant funds to build community facilities if a city meets its requirements.

5. Create Region-wide Housing Programs

Many of the member cities offer down payment assistance programs or other types of home purchase programs. However, these programs are often ineffective for two main reasons: 1) very few programs are effectively marketed and local realtors do not understand them, and 2) the program requirements are often too stringent for many potential buyers to qualify. Furthermore, some of the cities within the subregion do not have adequate in-house capability to operate such programs. The GCCOG should conduct a study to determine which types of programs are most common among member cities, and which programs are most effective. The GCCOG could administer the programs on a subregional basis or only within cities that agree to these policies.

Such larger operations could help reduce management and overhead costs. This approach would be particularly effective for advertising the programs, and would give potential qualifiers more flexibility in the location of new housing. This is one of the best opportunities for the GCCOG to make an impact on housing within the subregion.